

11/16/90

## SUBJ: FAA IMPLEMENTATION OF THE FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT

1. **PURPOSE.** This order prescribes policy, assigns responsibilities, and contains standards and procedures for evaluating, improving, and reporting on FAA management control and accounting systems. This order also implements the Federal Managers' Financial Integrity Act (FMFIA) of 1982 (P. L. 97-255); OMB Circular A-123, Internal Control Systems (Revised); OMB Circular A-127, Financial Management Systems; and Order DOT 5100.4A, Department of Transportation Internal Control and Accounting Systems.

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2. **DISTRIBUTION.** This order is distributed to the branch level in Washington, regions, and centers, and a limited distribution to all field offices and facilities.

3. **CANCELLATION.** Order 1000.32A, Internal Control and Accounting Systems, dated September 24, 1984, is canceled.

4. **BACKGROUND.** The Accounting and Auditing Act of 1950 requires the head of each department and agency to establish and maintain adequate systems of management control. Despite this and other statutory requirements, there continue to be instances of waste, fraud, and abuse of Government resources and mismanagement of Government programs.

a. These problems often result from gaps in management control coverage or from breakdowns in compliance with existing controls. To minimize incidents of this nature, Congress enacted (in September 1982) the Federal Managers' Financial Integrity Act. This Act requires that management control and accounting standards be developed by the General Accounting Office (GAO), annual evaluations be conducted by each executive agency of its management control (section 2) and accounting (section 4) systems in accordance with guidelines established by the Director of the Office of Management and Budget (OMB), and annual statements be submitted by the head of each executive agency to the President and the Congress on the status of the agency's system of management controls. OMB provided guidance by issuing Circular A-123, Internal Control Systems, which prescribes policies and procedures to be followed in establishing, maintaining, evaluating, improving, and reporting on management controls; and Circular A-127, Financial Management Systems, which describes policies and procedures to be followed in developing, operating, evaluating, and reporting on financial systems.

b. In 1985, the President's Council on Management Improvement (PCMI) completed a nationwide study on the management control evaluation process and made several recommendations to streamline the process and reduce costs. OMB revised its A-123 circular in August 1986 to incorporate PCMI recommendations and to clarify internal (management) control terminology and objectives. The revision included an additional requirement for an agency Management Control Plan (MCP), which is to serve as the agency's master management control evaluation plan.

5. **EXPLANATION OF CHANGES.** This revision:

a. Clarifies the scope and applicability of the order by changing its subject (title).

b. Incorporates OMB Circular A-123 revisions of August 4, 1986.

c. Incorporates Office of the Secretary of Transportation procedural changes since the issuance of Order DOT 5100.4A, Internal Control and Accounting Systems, in November 1983.

d. Changes the terms "Internal Control Review (ICR)" and "Alternative Internal Control Review (AICR)" to "Management Control Review (MCR)" and "Alternative Management Control Review (AMCR)," respectively.

e. Changes the term "Vulnerability Assessment (VA)" to "Risk Assessment (RA)."

f. Expands and clarifies the definition of terms used in the A-123 process.

g. Aligns FAA's management control responsibilities and procedures with the agency's current organizational structure.

h. Prescribes standard procedures and minimum documentation requirements for risk assessments and management control evaluations.

i. Provides improved guidance to assist agency organizations in complying with A-123 requirements.

## 6. DEFINITIONS.

a. **Accounting Principles and Standards.** The "Statement of Accounting Principles and Standards for Federal Agencies" issued by the Comptroller General on April 18, 1983, with which agency accounting systems must conform in order to comply with the FMFIA.

b. **Accounting System.** A complete accounting system is one established to assist in the financial management functions of budget formulation and execution, proprietary accounting, and financial reporting. It is the total structure of methods and procedures used to record, classify, and report information on the financial position and operations of a governmental unit or any of its funds, balanced account groups, and organizational components. Accounting systems shall be comprised of the various operations involving the authorizing, recording, classifying, and reporting of financial data related to revenues, expenses, assets, liabilities, and equity.

c. **Assessable Component.** A MAJOR program, administrative activity, organization or functional subdivision of the Federal Aviation Administration, which is to be the subject of a risk assessment or management control evaluation. This term "assessable component" is synonymous with "assessable unit" that was used in management control guidance prior to August 1986.

d. **Component Inventory.** A listing of all assessable components identified by a particular organization; e.g., Executive Director for System Operations' (AXO) component inventory includes the assessable components pertinent to the AXO organization. The AXO component inventory is a segment of the FAA component inventory.

e. **Event Cycle.** A series of sequential steps or related actions that are needed to accomplish an activity. An event cycle is tied together by a significant beginning and ending action. For a more detailed explanation, see appendix 6, page 2.

f. **Financial Management/Accounting Guidelines.** Guidelines issued by OMB in September 1983 entitled "Guidelines for Evaluating, Improving, and Reporting Upon Financial Management/Accounting Systems in the Federal Government."

g. **General Control Environment Risk.** Various environmental factors (such as management's attitude toward management controls, competence and integrity of personnel, delegation and communication of authority and responsibility, ADP considerations, and others) that can influence the effectiveness of management controls over program and administrative functions.

h. **Inherent Risk.** The potential risk for waste, loss, unauthorized use, or misappropriation relative to the nature of the function being performed.

i. **Management Controls.** The plan of organization, methods, and procedures adopted by management to provide reasonable assurance that: obligations and costs are in compliance with applicable law; funds, property, and other assets are properly accounted for and safeguarded against waste, loss, unauthorized use, or misappropriation; and revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the proper maintenance of accounts, the preparation of reliable financial and statistical reports, and to maintain accountability over the assets. (Note: The term "management control" is synonymous with "internal control" as used in the FMFIA and OMB Circular A-123.)

j. **Management Control Documentation.** Written materials of two types:

(1) *System documentation* includes policies and procedures, organizational charts, manuals, memoranda, flow charts, and related written materials necessary to describe organizational structures, operating procedures, and administrative practices and communicates responsibilities and authorities for accomplishing programs and activities. Such documentation shall be present to the extent required by management to effectively control operations. Although this documentation is utilized in the conduct of a MCR/AMCR, it is not required in the actual documentation of the MCR/AMCR.

(2) *Review documentation* shows the type and scope of review, the responsible official, the pertinent dates and facts, the key findings, and the recommended corrective actions. Documentation is adequate if the information is understandable to a reasonably knowledgeable reviewer. This documentation is required to document properly a MCR/AMCR.

k. **Management Control Evaluation.** A detailed evaluation of a program or administrative activity to determine existing control techniques and identify any additional control techniques that may be required to achieve cost-effective compliance with the FMFIA. Control evaluations are of two types:

(1) *Management Control Review (MCR)* is a detailed examination of a system of management controls to determine whether adequate control measures exist and are implemented to prevent or detect the occurrence of potential risks in a cost effective manner. All reviews shall produce written documentation of actions taken and conclusions. See paragraph 6j, Management Control Documentation.

(2) *Alternative Management Control Review (AMCR)* is the use of other reviews (i.e., Inspector General audits, General Accounting Office audits, other management or consultant reviews, Circular A-130 computer security reviews, Circular A-127 financial system reviews, etc.) to determine if the systems of control are in compliance with this order. Such alternative reviews must determine overall compliance and include the testing of controls and the development of required documentation.

l. **Management Control Objective.** A desirable goal or condition for a specific event cycle that reflects the application of the overall objectives of management control to that specific cycle. Examples of management control objectives include organizational mission/function statements, operational policies, and organizational goals (i.e., productivity, security, accountability, and etc).

**Note:** Control objectives are not absolutes. Since the achievement of control objectives can be and is affected by such factors as budget constraints, staffing limitations, consideration of other workload priorities, statutory and regulatory restrictions, and cost-benefit considerations, the lack of achievement of control objectives does not necessarily represent a defect or deficiency requiring correction. Such limiting factors need to be considered in determining whether there is REASONABLE assurance that resources are properly managed and safeguarded.

m. **Management Control Plan (MCP).** A written plan used to manage the agency's FMFIA implementation. The plan summarizes the agency's component inventory, risk rating, responsible program official, and planned/completed management control evaluations for each component in the inventory.

n. **Management Control Standards.** Management control standards were issued by the Comptroller General (CG) on June 1, 1983, for use in establishing and maintaining management control systems. These standards are applicable to all operations and administrative functions but are not intended to limit or interfere with duly granted authority related to development of legislation, rulemaking, or other discretionary policymaking generally reserved to the Secretary/Administrator of the agency.

o. **Management Control System.** The organizational structure, operating procedures, and administrative practices adopted by management to provide reasonable assurance that programs and administrative activities are effectively carried out in accordance with objectives of the FMFIA and this order.

p. **Management Control Techniques.** The management processes (e.g., procedures, methodology, and documentation) used to accomplish a management control objective efficiently and effectively, and thus, help safeguard allocated resources from waste, loss, or other abuse.

q. **Management Control Weakness.** A situation in which the designed procedures or degree of operational compliance does not provide reasonable assurance that the objectives of management control specified in paragraph 12 are being accomplished.

r. **Material Weakness.** A specific instance of noncompliance with the FMFIA of sufficient importance to be reported to the Secretary of Transportation. Appendix 1, Criteria for Material Weaknesses, contains the criteria for determining the materiality of management control weaknesses. Material weaknesses are of two types:

(1) *OMB Material Weaknesses* are significant weaknesses that should be brought to the attention of the President and the Congress, see paragraph 2a of appendix 1. (Note: Material weaknesses are reported to the Secretary of Transportation in FAA's annual FMFIA Compliance Report and the Secretary reports the weaknesses to the President and the Congress.)

(2) *DOT Material Weaknesses* are significant weaknesses that should be reported internally to the Secretary of Transportation, but not of the level of significance for reporting to the President and the Congress. These weaknesses are combined with other modal DOT Material Weaknesses and constitute the Departmental Early Warning System. See paragraph 2b of appendix 1.

s. **Reasonable Assurance.** A judgment based upon all available information that the systems of management control are operating as intended by the FMFIA.

t. **Resource.** Any asset which the Government has an invested interest; e.g., funds, personal, property, equipment, materiel, contracts, time, etc.

u. **Risk Assessment (RA).** A documented review by management of a component's potential susceptibility to waste, loss, unauthorized use, or misappropriation. This term is synonymous with "vulnerability assessment."

v. **Safeguards.** The management control measures or procedures which prevent or at least minimize waste, loss, unauthorized use, or misappropriation. This term is synonymous with "management controls."

w. **Testing.** Procedures to determine whether management control systems are working in accordance with management's control objectives.

x. **Tracking Systems.** The following systems are used to track the status of management controls within DOT and FAA:

(1) *FMFIA Compliance Report* is used to document FAA management control material weaknesses and accounting system nonconformances and to track them for corrective actions as long as the weaknesses are material and/or the accounting systems are in nonconformance.

(2) *Management Control Plan (MCP)* is the agency master plan for FMFIA implementation and is used to track agency management control activities. See paragraph 6m.

(3) *Corrective Action Tracking System (CATS)* is used to track material weakness corrective actions. A management control weakness is entered in the system when it is determined to be material and remains in the system until corrective actions have been completed. Departmental modal administrations maintain their respective CATS systems in support of the Departmental system.

(4) *High Risk Area Report* is used to track agency activities for specific functional areas that have been identified by OMB and/or OIG as areas that require closer management attention. The relationship between high risk areas and material weaknesses varies. Some high risk areas have a direct relationship to one or more material weaknesses. For example, a high risk area entitled "procurement" may have several discrete material weaknesses, while other high risk areas have none.

**7. REQUESTS FOR INFORMATION.** Inquiries regarding management control requirements, activities, and copies of documents referenced in this order should be directed to the respective A-123 coordinator in each organization. A-123 coordinators for organizations that report directly to the Administrator should direct their inquiries to the Management Studies Branch (AMS-550) in the Office of Management Systems. Inquiries regarding accounting system requirements should be directed to the Accounting Systems Division (AAA-400) in the Office of Accounting.

**8. FORMS AND REPORTS.** This paragraph lists reports and other information required to enable the agency to comply with the FMFIA and other external reporting requirements. The Office of Management Systems provides guidance for paragraphs 8a and 8c(1) through 8c(5). The Office of Accounting provides guidance for paragraph 8b. Paragraph 18 provides specific reporting dates for the following external reports.

**a. Annual Report on Management Control Compliance.** Executives who report directly to the Administrator (see paragraph 14b) shall submit statements of management control compliance for their organizations to the Administrator by September 15, annually (this date may vary slightly depending on the compliance process requirements). These statements will be used to develop an overall statement of management control compliance for the agency which will be submitted to the Secretary of Transportation.

**b. Annual Report on Accounting System Conformance.** Regional administrators and center directors with servicing accounting offices and the Manager, Accounting Operations Division, shall submit statements of accounting system conformance to the Administrator through the Director of Accounting (AAA-1) and the Associate Administrator for Administration (AAD-1) by September 15, annually. These statements will be used to develop an overall statement of accounting system conformance for the agency which will be submitted to the Secretary of Transportation.

**c. Other Reports/Forms required for Management Control Activities.** Executives who report directly to the Administrator (see paragraph 14b) shall ensure that the following reports/forms are submitted to the Associate Administrator for Administration (Attention: AMS-1) for their respective organizations:

(1) *MCP Report* updating the current MCP to reflect changes in the component inventory and management control activities planned/completed during the past 6 months.

(2) *CATS Report* updating the status of pending MATERIAL weaknesses each quarter.

(3) *High Risk Area Report* updating the status of agency High Risk Area action items to reflect activities that have been planned/completed during the past 6 months. Reports are required only from those organizations which perform functions in areas that have been identified by OMB and/or OIG as High Risk Areas.

(4) *Summary of Risk Assessments* listing all risk assessments conducted in an organization using the format in Appendix 2, Risk Assessment Summary Sheet, upon the completion of assessment(s).

(5) *Management Control Certification*, FAA Form 1000-26.6 (see appendix 3), certifying the completion and conclusion of a management control evaluation. If a MATERIAL weakness is discovered by the evaluation process, a completed FAA Form 1000-26.5, Management Control Review Status Report (see appendix 7), shall be attached to the certification form.

**9. AUTHORITY TO CHANGE THIS ORDER.** The Associate Administrator for Administration (AAD-1) is authorized to issue changes to this order which do not affect policy (paragraph 11) or an assignment of responsibility (paragraph 14). Changes to this order will be coordinated in accordance with Order 1320.1C, FAA Directives System.

**10. APPLICABILITY.** This order applies to each manager (supervisor) in FAA. Each manager is allocated and manages Government resources to accomplish his/her organizational unit's assigned tasks. Management controls are inherent responsibilities of all managers. The order applies to all FAA organizational levels and encompasses the totality of the agency's operations; i.e., air traffic control, airway facilities maintenance, aviation standards inspections, budget systems, management of grants and contracts, personnel administration, procurement, accounting, etc. This order does not limit nor is it intended to interfere with authority related to the development of legislation, rulemaking, or other discretionary policymaking that is generally reserved for the Administrator of the agency.

**11. POLICY.** All agency organizations shall maintain effective systems of management control in all program, administrative, and accounting activities. All levels of management shall involve themselves in assuring that management controls are adequate, that all systems are evaluated on an ongoing basis, and that weaknesses, when detected, are promptly corrected. All accounting systems, both existing and newly implemented, shall conform to the Comptroller General's accounting principles and standards. Reports shall be issued, as required, on management control activities and the results of evaluations. New programs shall be designed to incorporate effective systems of management control. Ultimate responsibility for adequate management controls is the direct functional responsibility of each program and administrative manager.

**12. OBJECTIVES.** FAA's management control and accounting systems shall provide management with reasonable assurance that:

- a. Obligations and costs comply with applicable laws.
- b. Funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation.
- c. Revenues and expenditures are properly recorded and accounted for to permit the preparation of reliable reports and to maintain accountability over the assets.

NOTE: The objectives of management control apply to ALL levels of organization within the agency and to ALL agency activities—major programs as well as administrative and accounting activities.

**13. STANDARDS OF MANAGEMENT CONTROL.** Certain basic standards shall be adhered to in the systems of management control established. These include the following:

**a. General Standards.**

(1) *Reasonable Assurance.* Management control systems are to provide reasonable assurance that the objectives of the systems will be accomplished. This standard recognizes that the costs of management control should not exceed the expected benefits and that the benefits consist of reductions in the risks of failing to achieve the stated control objectives.

(2) *Supportive Attitude.* Managers and employees should maintain and demonstrate a positive and supportive attitude toward management controls at all times.

(3) *Competent Personnel.* Managers and employees are to exhibit professional integrity and are to maintain a level of competence that allows them to accomplish their assigned duties, as well as understand the importance of developing and implementing good management controls.

(4) *Control Objectives.* Management control objectives are to be identified or developed for each agency event cycle and are to be logical, applicable, and reasonably complete.

(5) *Control Techniques.* Management control techniques are to be effective and efficient in accomplishing their management control objectives.

**b. Specific Standards.**

(1) *Documentation.* Management control systems and all transactions and other significant events are to be clearly documented and the documentation is to be readily available for examination.

(2) *Recording of Transactions and Events.* Transactions and other significant events are to be promptly recorded and properly classified.

(3) *Execution of Transactions and Events.* Transactions and other significant events are to be authorized and executed only by persons acting within the scope of their authority. Independent evidence is to be maintained to assure that authorizations are issued by persons acting within the scope of their authority and that the transactions conform with the terms of the authorizations.

(4) *Separation of Duties.* Key duties and responsibilities in authorizing, processing, recording, and reviewing transactions should be separated among individuals to minimize the risk of loss to the Government. Management control depends largely on reduced opportunities to make and conceal errors or to engage in or conceal irregularities. This in turn depends on the assignment of work so that no one individual controls all phases of an activity or transaction, thereby, creating a situation that permits errors or irregularities to go undetected.

(5) *Supervision.* Qualified and continuous supervision is to be provided to ensure that management control objectives are achieved and approved procedures are followed. Lines of personal responsibility and accountability are to be clearly established.

(6) *Access to and Accountability for Resources.* Access to resources and records is to be limited to authorized individuals, and accountability for the custody and use of resources is to be assigned and maintained. Periodic comparison shall be made of the resources with the recorded accountability to determine whether the two agree. The frequency of the comparison shall be a function of the risk factor of the asset.

c. **Audit Resolution Standard.** Managers shall ensure that:

- (1) Findings and recommendations reported by auditors are promptly evaluated.
- (2) Proper actions in response to audit findings and recommendations are determined.
- (3) All actions that correct or otherwise resolve the matters brought to management's attention are completed within established time frames.

**14. RESPONSIBILITIES.**

a. **The Associate Administrator for Administration (AAD-1)** is responsible for directing the overall agencywide effort to evaluate, improve, and report on FAA's management control and accounting systems.

b. **Executive Directors, Assistant Administrators, and the Chief Counsel** (executives that report directly to the Administrator) are responsible for:

- (1) Ensuring compliance with this order.
- (2) Ensuring that an individual is assigned to coordinate and track A-123 activities in their organization, and identifying by memorandum the name, routing symbol, and telephone number of their coordinator to the Office of Management Systems.
- (3) Ensuring that RA's are conducted and that the results are reported to the Office of Management Systems as required.
- (4) Ensuring that MCR's/AMCR's are conducted as required, evaluation results are certified, and corrective actions are scheduled and monitored until actions are completed.
- (5) Ensuring that MCP, CATS, and High Risk Area reports/updates are submitted to the Office of Management Systems as required.
- (6) Submitting an annual Management Control Compliance Statement for their organization to the Administrator by September 15, annually.
- (7) Ensuring that the effectiveness of their management controls is reviewed on an ongoing basis, that needed changes are identified, and that new or revised management controls are implemented as needed.
- (8) Identifying the major agency programs/functions (assessable components) for their respective program, administrative, or financial areas. These assessable components are used throughout FAA in conducting management control activities (i.e., risk assessments, management control evaluations, etc.) by FAA organizational units that perform tasks/functions encompassed by the component.
- (9) Reviewing and ensuring the accuracy of the listing of assessable components for their respective areas. This includes submitting additions and/or deletions to their respective assessable component inventories, when changes occur, to the Office of Management Systems.
- (10) Ensuring that A-123 requirements applicable to straightlined field and headquarters organizations under their purview are identified, conducted, and reported through them.
- (11) Ensuring the documentation of organizational procedures used in accomplishing FMFIA tasks and providing assurances of FMFIA compliance for their organization.

(12) Ensuring that a scheduling and tracking system is maintained in their organization to ensure that management control activities, evaluations, and corrective actions are scheduled, monitored, and completed in a timely manner.

c. **All agency managers** are responsible for complying with this order. Specifically, this involves:

- (1) Ensuring the efficient management and safeguarding of all resources for which they are responsible.
- (2) Completing risk assessments for their immediate organizational unit as scheduled and as deemed necessary.
- (3) Ensuring that required management control evaluations are scheduled and conducted as scheduled.
- (4) Participating (or designating a participant) in the conduct and/or review of management control evaluations.
- (5) Submitting or providing input to required reports and information prescribed in this order for their respective organizations.

d. **A-123 Coordinators** (individuals designated to coordinate A-123 activities) are responsible for:

- (1) Serving as the point of contact within their organization on all matters and inquiries relating to organizational management control systems and requirements.
- (2) Providing guidance and training (as required) on management control matters to others within their organization.
- (3) Preparing and providing input to reporting requirements prescribed in this order for their organization.
- (4) Scheduling and monitoring the performance of risk assessments and management control evaluations in their organization to ensure that they are completed in accordance with established guidelines and schedules.
- (5) Participating in management control evaluations, as assigned, to ensure compliance of the evaluation with OMB guidelines.
- (6) Tracking and monitoring reported management control weaknesses and the completion of corrective actions for their organization.
- (7) Coordinating internal directives which implement this order with the Office of Management Systems.

e. **Accounting Officers** in the regions, centers, and the Washington headquarters are responsible for:

- (1) Serving as the contact point within the region, center, or office on all matters relating to Section 4 of the FMFIA, Accounting Systems.
- (2) Conducting or participating in accounting system reviews and reporting material nonconformances (if any) and planned corrective action to the Office of Accounting.
- (3) Responding to national reporting requirements and inquiries related to accounting system reviews.
- (4) Developing, in coordination with the Office of Accounting, a follow-up system to ensure that corrective actions are accomplished in a timely manner.

**f. The Office of Management Systems** is responsible for coordinating the overall agencywide effort to evaluate, improve, and report on FAA's management control systems. Specifically, this involves:

(1) Serving as the point of contact for the agency on all matters relating to Section 2 of the FMFIA, management control systems.

(2) Providing guidance on management control matters, including report formats, to organizations mentioned in paragraphs 8a and 8c.

(3) Responding to external reporting requirements; i.e., FMFIA Compliance Reports, semiannual MCP updates, quarterly CATS updates, semiannual High Risk Area updates, and other inquiries relative to FAA management controls.

(4) Reviewing and consolidating management control reports and other information submitted by agency organizations (e.g. reports listed in the above paragraph) and provide guidance and direction to the applicable organization on their composition.

(5) Monitoring agency compliance with applicable management control requirements; e.g., this order, Order DOT 5100.4A, Circular A-123, the FMFIA, etc.

(6) Coordinating efforts with organizations specified in paragraph 14b to ensure that all requirements are met and that information reported to DOT and other organizations is accurate and submitted in a timely manner and to facilitate the scheduling of management control reviews and other actions.

(7) Conducting cost-benefit analyses, as required, for the overall administration of the A-123 program.

(8) Ensuring, in conjunction with the Associate Administrator for Human Resource Management, that adequate training is provided to agency personnel to enable them to conduct their management control activities satisfactorily.

(9) Ensuring that internal implementing directives issued by agency organizations are consistent with this order.

**g. The Office of Accounting** is responsible for:

(1) Serving as the point of contact for the agency on all matters relating to Section 4 of the FMFIA, Accounting Systems.

(2) Providing guidance, including minimum documentation requirements, on matters relating to accounting system reviews.

(3) Responding to external (e.g., OST, OMB) reporting requirements and inquiries related to accounting system reviews.

(4) Monitoring agency compliance with applicable accounting system review requirements; e.g., this order, Order DOT 5100.4A, FMFIA Section 4, etc.

(5) Preparing and providing the Section 4, Accounting Systems, portion of the FAA FMFIA Compliance Statement to AMS-1 by September 30, annually. (Memorandum of Agreement between the Office of Accounting and the Office of Management Systems of September 1988).

**h. The Associate Administrator for Human Resource Management** is responsible for:

(1) Participating with the Office of Management Systems in the development and conduct of management control training.

(2) Providing guidance to agency organizations on the development of management control performance standards for Senior Executive Service and Merit Pay positions responsible for managing agency program, administrative, and/or financial systems.

**15. PERFORMANCE APPRAISALS.** Performance standards for Senior Executive Service and Merit Pay positions responsible for managing agency program, administrative, and/or financial systems must include management control responsibilities. The Associate Administrator for Human Resource Management is required to issue guidance on the development of these standards in compliance with OMB Circular A-123, Internal Control Systems.

**16. BASIC MANAGEMENT CONTROL PROCESS.** Following is a brief description of the basic management control process. A chart depicting this process is in appendix 4, Management Control Process.

**a. Segment the agency and identify assessable components/units.** This process involves breaking down the agency into its organizational components and identifying the major programs and/or functions. To initiate this process, each executive that reports directly to the Administrator (see paragraph 14b) provides a list of the organization's assessable components and the title of the responsible official for each component to AMS. Prior to the start of the risk assessment process, AMS shall provide a consolidated listing of agency assessable components and the assignment of (FAA sample) assessments to be conducted by the respective organizations.

**b. Conduct risk assessments.** This involves the completion of an assessment by each assigned organizational unit on functions it performs to determine the potential susceptibility to waste, loss, unauthorized use, or misappropriation. Specific guidance for the risk assessment process is provided in Appendix 5, Risk Assessments.

**c. Report risk assessment results to AMS.** The rating results of risk assessments are required by AMS for prioritizing and scheduling programs and functions rated high for subsequent management control evaluations, and for reporting the results to external organizations such as the Office of the Secretary of Transportation (OST). Each organization referenced in paragraph 14b will provide the Office of Management Systems with a summary of all risk assessments conducted in its organization using the Risk Assessment Summary Sheet, Appendix 2. Actual documentation from the assessment process should be maintained by the organization completing the assessments and not submitted with the summary documentation.

**d. Develop plans and schedules for conducting management control evaluations and other actions.** Based on risk assessment results, management priorities, resource constraints, existing audits and evaluations, etc., management control evaluations shall be scheduled for all areas rated as high risk. The A-123 coordinators for organizations referenced in paragraph 14b shall schedule management control evaluations for all organizational segments assessed as high risk. The planned evaluations shall be included in their Risk Assessment Summary. If a control weakness is known as a result of the assessment, the corrective action shall be taken immediately to correct the weakness. This does not eliminate the requirement to conduct a management control evaluation.

e. **Conduct management control evaluations.** This involves a detailed examination (MCR/AMCR) of a program or function (assessable component) to determine whether adequate controls have been established and are functioning as intended to minimize risks. This includes identifying potential risks, establishing control objectives to minimize risks, selecting control techniques to be used to achieve control objectives, testing the control techniques to ensure that they work as designed, documenting control weaknesses surfaced during the testing of the techniques, and determining and scheduling actions necessary to correct the weaknesses. Specific guidance for the management control evaluation process is provided in Appendix 6, Guidance For Performing Management Control Reviews and Alternate Management Control Reviews, and the FAA Internal Control Review Guide (Revised March 1987).

f. **Report management control evaluations results to AMS.** Results of management control reviews are needed to ensure that the agency is in compliance with FMFIA requirements. This responsibility includes reporting management control review results to external organizations such as OST. Each organization referenced in paragraph 14b provides the Office of Management Systems with a Management Control Certification form, FAA Form 1000-26.6, Appendix 3, for each control evaluation conducted in its organization upon the completion of the evaluation. Actual documentation from the evaluation process shall be maintained by the organization completing the evaluation and not submitted with the certification form, except when a MATERIAL weakness is identified. When a MATERIAL weakness is discovered by the evaluation process, a completed FAA Form 1000-26.5, Management Control Review Status Report (see appendix 7), shall be attached to the certification form.

g. **Determine, schedule, and take necessary corrective action on a timely basis.** Recommendations resulting from management control evaluations shall be considered by management on a timely basis. The required corrective action(s) shall be scheduled for implementation and tracked by the respective organizations, referenced in paragraph 14b, until the action(s) have been completed. MATERIAL weaknesses will be tracked using CATS. The CATS tracking system shall be updated quarterly by organizations referenced in paragraph 14b, shall contain the status of all pending FAA material weaknesses, and shall reflect changes in the completion of scheduled corrective actions.

h. **Prepare the annual Management Control Compliance Statement to the Administrator.** The FMFIA requires that MATERIAL weaknesses be reported along with planned corrective actions in the annual compliance statement until the actions are completed.

**17. BASIC PROCESS FOR REVIEWING ACCOUNTING SYSTEMS.** This paragraph contains a brief description of the basic process for reviewing accounting systems. The Office of Accounting, in cooperation with OST, provides guidance for completing these reviews.

a. **Develop plans and schedules for performing accounting system reviews.** This includes developing an approach, assigning personnel, deciding on timetables, etc. The end product of this phase is a project management plan.

b. **Identify and inventory the accounting systems.** This requires a determination as to whether or not specific systems containing financial data should or should not be considered as accounting systems. After the individual systems are identified, a priority sequence for evaluating the systems must be established. The end product of this phase is an inventory of accounting systems sequenced in priority order.

c. **Develop or identify an existing information system to schedule and track the evaluations.** The system should also be usable to monitor the plans and timetables for bringing the accounting system into conformance.

d. **Obtain a thorough understanding of how the systems operate.** The reviewer(s) should develop a detailed knowledge of each system's operations by developing new documentation, using available documentation, interviewing appropriate personnel, reviewing forms processed by the system, etc.

e. Evaluate the accounting systems selected in relation to principles, standards, and related requirements prescribed by the Comptroller General. The end product of the evaluations is a determination as to whether the systems are in conformance with those principles, standards, and requirements. The evaluations should also identify all instances of material nonconformance.

f. Determine and schedule the corrective actions to be taken. The end product of this process will be plans and timetables for bringing the system evaluated into conformance.

g. Prepare the annual report to the Administrator on the compliance of the agency's accounting systems.

**18. FREQUENCY OF ASSESSMENTS, REVIEWS, AND REPORTING.** This paragraph contains the minimum frequency requirements; additional assessments, reviews, and/or reports may be required as deemed necessary. The following reporting dates (except 18g., accounting system reviews) indicate when FAA reports are due at the Department. In support of these requirements, report due dates within FAA will vary based on internal processing requirements. Appendix 9, Table of Internal Reports, lists the internal reports and general due dates for executives that report directly to the Administrator (see paragraph 14b).

a. **FMFIA Compliance Report.** The annual compliance report shall be submitted to the Secretary, through the Assistant Secretary for Administration, each November 1.

b. **MCP Report.** The annual MCP shall be submitted to OST, Office of Financial Management, by 10 workdays after September 30; and a semiannual update submitted by 10 workdays after March 31.

c. **CATS Report.** A quarterly update on the status of pending MATERIAL weaknesses shall be submitted to OST, Office of Financial Management, within 15 workdays following the end of each quarter (December 31, March 31, June 30, and September 30).

d. **High Risk Area Report.** FAA's annual High Risk Area report, if high risk areas have been identified by OMB and/or OIG, shall be submitted to OST, Office of Financial Management, by 10 workdays after September 30; and a semiannual update submitted by 10 workdays after March 31.

e. **RA's** shall be conducted on a 3-year basis. The next series of assessments must be completed by September 30, 1992. Additional assessments may be initiated by agency managers as deemed necessary.

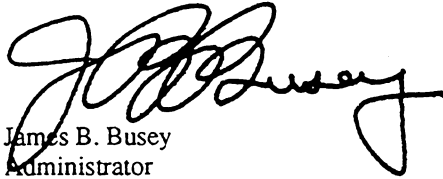
f. **MCE's** should be conducted on an ongoing basis to determine whether the controls are operating as intended. For high-risk assessments, evaluations are mandatory and must be conducted within 1 year of the high-risk rating.

g. **Accounting system reviews** shall be completed sufficiently in advance of September 15 to allow for preparation of the Annual Report on Accounting System Compliance. (September 15 is the date established by the Office of Accounting for submission of these reports.)

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**19. AUDITS AND EVALUATIONS.** To the extent possible, audits conducted by the GAO or the OIG and evaluations or management studies conducted by OST or FAA may be used to satisfy and/or supplement management control evaluations required by this order. Audits and evaluations conducted within the past 2 years may be considered applicable, provided the scope of the reports includes reasonable coverage of management control concerns (e.g., improving the management and safeguarding of resources), and that the audit/evaluation generally complies with OMB guidelines. Evaluation guidelines should be reviewed as needed to ensure that management controls are given appropriate coverage in future evaluations.

A handwritten signature in black ink, appearing to read "James B. Busey", is written over the printed name and title.

James B. Busey  
Administrator



## APPENDIX 1. CRITERIA FOR MATERIAL WEAKNESSES

Paragraph 6r defines a material weakness and the two levels, OMB and DOT, of materiality. This appendix provides general and specific criteria for the determination of a material weakness and the level of its materiality. A management control weakness shall be reported as material based on the following parameters:

### 1. GENERAL.

- a. All known weaknesses must be evaluated for materiality using the following criteria, including those identified by OIG and/or GAO audit reports and management studies.
- b. The determination that there is a material weakness also requires determining whether the weakness(es) meets the criteria established by OMB for reporting to the President and the Congress or should be reported under the Department's early warning system to the Secretary.
- c. If an Operating Administration and the OST Office of Financial Management have a difference on what should be included as a material weakness, every attempt will be made to resolve the difference before the annual compliance report is signed by the Secretary. Where agreement cannot be reached, the Assistant Secretary for Administration will make the final decision. The disagreeing position of the Operating Administration will be included in the Office of the Secretary of Transportation (M-80) package forwarded to the Secretary for signature.

2. **MATERIALITY.** The Department of Transportation uses the following two levels of materiality. The first level, OMB criteria, is used to determine weaknesses that are reported to the Secretary, who in turn reports them to the President and the Congress (OMB Material Weaknesses). The second level, Departmental criteria, is used to determine weaknesses that are reported to the Secretary as an early warning (DOT Material Weaknesses).

a. The OMB criteria provide for the reporting of weaknesses that:

- (1) significantly impair the fulfillment of the Department's or a component's mission;
- (2) deprive the public of needed services;
- (3) violate statutory or regulatory requirements;
- (4) significantly weaken safeguards against waste, loss, unauthorized use or misappropriation of funds, property, or other assets; or
- (5) result in a conflict of interest.

Since the above factors are judgmental and have been widely interpreted, the following additional factors shall be used to determine whether weaknesses are to be reported to the President and the Congress. Each material weakness should meet one or more of the following additional criteria:

- (6) merit the attention of the Secretary/senior management, the Executive Office of the President, or the relevant Congressional oversight committee;
- (7) exist in a majority of Departmental components or in a major program or activity;
- (8) risk or result in the actual loss of either \$10 million or 5 percent of the resources of a budget line item; or
- (9) reflect adversely on the credibility of the Department's report when subsequently made public.

- b. The Departmental (DOT) criteria provide for the reporting of weaknesses to the Secretary for an early warning that:
- (1) resulted in an actual or alleged fraud of at least \$5,000 traceable to a management control weakness;
  - (2) prevented or is likely to prevent substantial achievement of a modal administration's program, administrative, or financial objective. Where the objectives are financial, a weakness would generally be considered material if it has resulted or is likely to result in a loss or waste of resources amounting to the lesser of \$500,000 or 5 percent of the program's value;
  - (3) has resulted or could result in adverse publicity or embarrassment to the Department which diminishes credibility or reputation;
  - (4) had or could have an adverse impact on the public or third parties;
  - (5) was brought to the attention of the Administrator, the Assistant Secretary, the Executive Office of the President, or the relevant Congressional oversight committee outside of the normal management control review process;
  - (6) has resulted or could result in violation(s) of statutory or regulatory requirements (e.g., Prompt Payment Act, Anti-deficiency Act, etc.);
  - (7) created or could create a conflict of interest situation; or
  - (8) is considered reportable to the Secretary by an Assistant Secretary or the Administrator.
3. **GRANTEE RELATED MANAGEMENT CONTROL WEAKNESSES.** Grantee related management control weaknesses will be reported as MATERIAL weaknesses when they meet either level of materiality criteria and there is sufficient evidence of either inadequate grantee program guidance or program monitoring for conformance to Federal regulations. The determination of inadequate grantee guidance or program monitoring can result from an MCR, AMCR, or any medium which discloses that the guidance or monitoring is inadequate.

## APPENDIX 2. RISK ASSESSMENT SUMMARY SHEET

19 _____ RISK ASSESSMENT SUMMARY SHEET						Page _____ of _____
Organization Routing Symbol			Responsible Official (From MCP)			
Coordinator's Name			Routing Symbol			Manhours*
Comp. No.	Assessable Component Title	Performed by (Routing Symbol)	Man/Hrs. Required (from RA forms)	Assessable Component Ratings	Review Required (Indicate: MCR or AMCR and planned completion (m/yr))	

Responsible Manager — Print Name	Signature	Date
----------------------------------	-----------	------

\* Man-hours = time required to assign task and complete summary sheet (.50 = ½ hr)



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Appendix 3

APPENDIX 3. MANAGEMENT CONTROL CERTIFICATION



U.S. Department of Transportation  
Federal Aviation Administration

MANAGEMENT CONTROL CERTIFICATION

Component No. \_\_\_\_\_  
Component Title \_\_\_\_\_

In accordance with my responsibilities as (Title) \_\_\_\_\_ I have  
completed a management control evaluation. (Office Director or Equivalent)

- ☐ The results of the evaluation indicate that the system of management control of this office in effect during the year \_\_\_\_\_ complies with the requirement to provide reasonable assurance that the objectives of management control were achieved.
- ☐ The evaluation disclosed material weaknesses. The report lists weaknesses, planned actions and schedules for correcting such weaknesses.

MCR/AMCR (Circle one). If OIG or GAO audit, provide final audit number. NO. \_\_\_\_\_

Signature \_\_\_\_\_

Date \_\_\_\_\_

Approved:

Signature \_\_\_\_\_

Title \_\_\_\_\_

Date \_\_\_\_\_

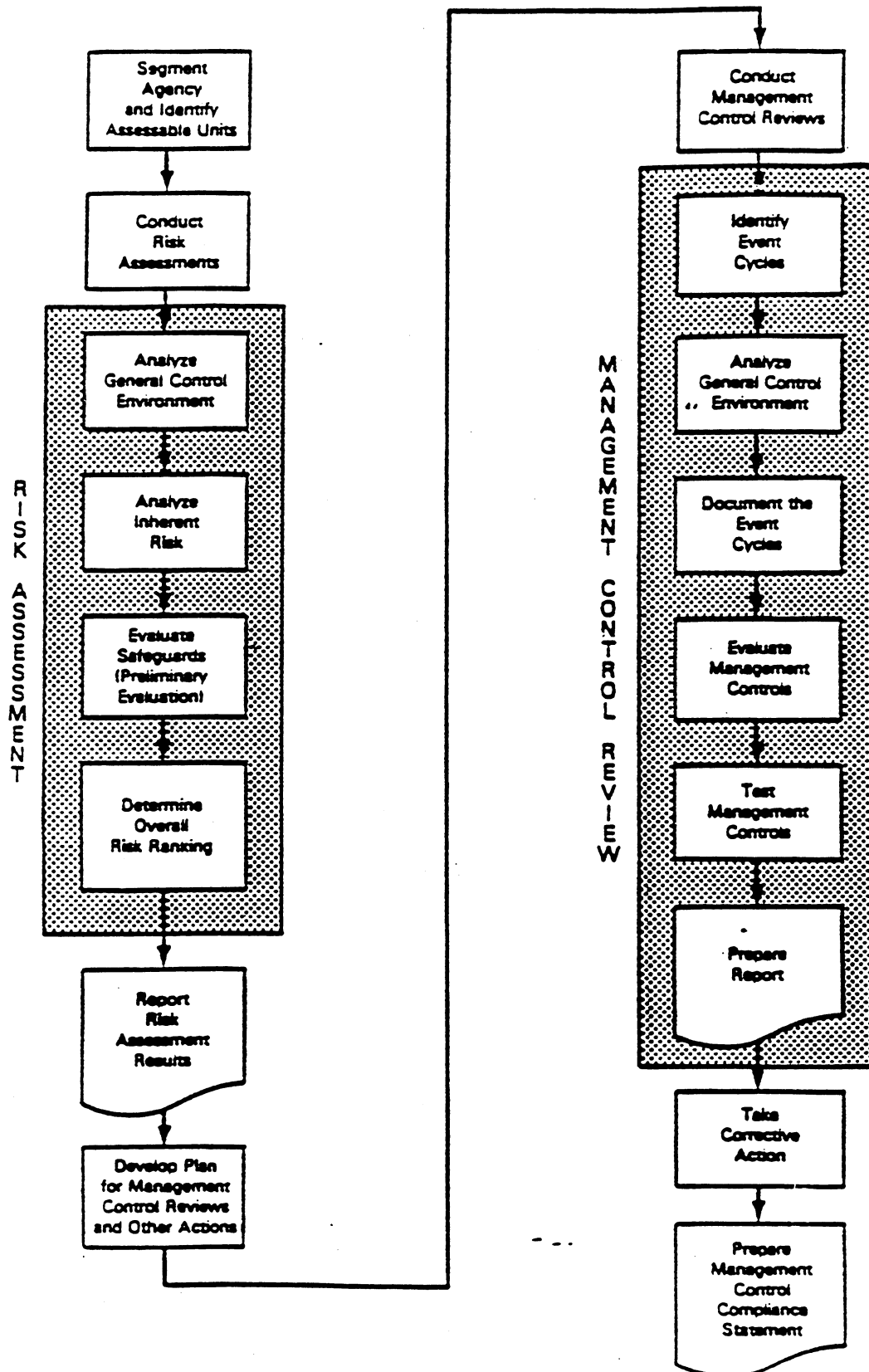
Attachment

- ☐ List of Material Weaknesses and Planned Actions  
(Copy of FAA Form 1000.26.5)



## Appendix 4. Management Control Process

This appendix provides a chart depicting the basic management control process as stated in paragraph 16.





## **APPENDIX 5. RISK ASSESSMENTS**

This appendix provides guidance on the conduct of risk assessments as stated in paragraph 16b.

### **1. WHAT IS A RISK ASSESSMENT?**

A risk assessment is an assessment of the susceptibility of a program or function to waste, loss, unauthorized use, or misappropriation. Risk assessments, alone, do not necessarily identify weaknesses or result in improvements. Rather, the risk assessment is a tool used to determine the potential for loss within a program or function, and to prioritize the conduct of detailed control reviews to the higher risk areas based on management priorities, resource constraints, etc.

### **2. WHY MUST THEY BE DONE?**

Risk assessments are an effective means by which a manager can identify those areas under his/her control which have greater potential for waste, loss, or other abuse, and which should receive immediate attention. As such, assessments enhance the agency's ability to accomplish its mission more efficiently and thereby make better use of taxpayer dollars. In addition, risk assessments are required by paragraph 8c of OMB Circular A-123, Internal Control Systems, (REV. August 4, 1986).

### **3. WHEN ARE THEY REQUIRED?**

All agency components shall be assessed as frequent as circumstances warrant and at a minimum of once every 3 years. Since FAA's last agencywide assessments were completed in August 1989, the next series of assessments is due prior to the end of FY 1992 and every 3 years thereafter.

### **4. WHO SHOULD PERFORM THE ASSESSMENTS?**

Managers/supervisors are responsible for completing risk assessments for their respective organizational units. They should periodically evaluate their control systems to ensure that adequate controls are in place to minimize or eliminate the potential for waste, loss, unauthorized use, or misappropriation of Government resources allocated to them to accomplish their assigned tasks.

### **5. WHAT SHOULD BE ACCOMPLISHED BY THE ASSESSMENT?**

Performance of a risk assessment involves identifying potential risks, assessing existing management controls, and assigning a risk rating for the assessable component being assessed in the organizational unit.

## FAA RISK ASSESSMENT

There are four steps in conducting a risk assessment: (1) analyzing the general control environment, (2) identifying inherent risks, (3) identifying and assessing safeguards, and (4) determining the risk rating. Figure 1 is a sample of a completed FAA Form 1000-27. This form is used to conduct a risk assessment.

### **GENERAL.**

**ORGANIZATION:** The office conducting the risk assessment.

**ROUTING SYMBOL:** The office routing symbol.

**ASSESSABLE COMPONENT:** The major program or function of the agency or the subdivision of that program/function which is to be the subject of the risk assessment.

**EVENT CYCLE:** Identify the event cycles associated with each assessable component being assessed. An event cycle is a process used to initiate and perform related activities; in other words, a series of sequential steps taken to complete an assessable component. For example, Contract Administration is an assessable component. The event cycles are requisition, solicitation, award, administration, and contract close-out. The event cycles can be taken from a functional statement of responsibilities or equivalent for each organizational unit. Refer to Appendix 6, page 1 and Figure 1, for additional details relating to event cycles.

**MISSION:** The responsibilities charged to programs as stated in the FAA missions and functions statements.

### ***STEP 1: Analyze The General Control Environment.***

The general control environment includes all aspects of the work setting that support the management control system. The general control environment can be thought of as a life-support system for management controls. Analyzing the general control environment allows us to identify the degree to which the work setting supports a system of management controls and to identify needed corrective actions to make the work setting more supportive. Examples of environmental risks are: (1) failure to revise and update policies and procedures and (2) failure to provide sufficient training opportunities to improve competency. Additional information on the general control environment is provided in appendix 6, page 6.

### ***STEP 2: Analysis of Inherent Risks.***

Inherent risk refers to the vulnerability of the activity to waste, loss, unauthorized use, or misappropriation due to the nature of the activity. Examples of inherent risks are (1) failure to record payables and other claims promptly and (2) failure to provide appropriate controls to detect unauthorized use of ADP systems. Additional examples are provided in appendix 6, page 7. A more detailed list of inherent risks is provided in the FAA Risk Assessment Guide.

Often, the loss due to fraud, waste, abuse, or mismanagement involves more than dollars. For example, waste of a small amount of dollars may receive such media attention that the greater loss experienced may be the erosion of public confidence in our ability to manage, which could lead to subsequent budget cuts. The areas listed below are to help you identify these risks.

1. Public Controversy
2. Loss of Public Confidence
3. Negative Impact on Relations with External Groups

4. Loss of Productivity (Quality, Quantity, or Cost) with Comparable Activities
5. Failure to Accomplish Mission
6. Endangerment of Health/Safety
7. Other:

*List Risks:* Identify the environmental and inherent risks associated with each event cycle.

**STEP 3: Identify and Assess Safeguards.**

Identify the safeguards in place that are commensurate with the risks identified in Step 2.

1. **CONTROL OBJECTIVE:** A single positive sentence that expresses the goal of an assessable component, these objectives being simple, clear, measurable, and observable.
2. **TYPE OF CONTROL:** Indicate the type of controls in operation. Examples are:

*Documentation*—Written descriptions of management controls, workflow processes, operational procedures, and directives. Written record of what should occur.

*Records*—Records used to record an activity (forms, logs, etc.). Written record of what actually did occur. Contains information on resources expended, approvals granted, and results achieved.

*Supervision*—The assignment, review, and approval of work. Should also require that supervisors provide the necessary guidance and training needed to reduce loss of resources and increase achievement of results.

*Authorization*—Standards or procedures in place to assure that only authorized persons make decisions about committing resources or carrying out work assignments. Methods in place to prevent personnel from exceeding their authority.

*Structure*—The requirement that key duties and responsibilities be separated among individuals for activities such as authorizing, processing, recording, and reviewing.

*Security*—Security means limiting access to Government resources to authorized individuals. Resources include: funds, inventory, information, space, equipment, ADP time, etc. This requires that control systems be in place to reduce the risk of unauthorized use or loss of Government resources. Specifically, it requires: (1) access to Government resources be restricted to authorized persons, (2) accountability for the custody and use of resources, and (3) periodic review to account for all assigned resources.

In identifying safeguards, it is acceptable to reference documentation where offsetting controls are described. If no documentation exists, appropriate documentation should be developed to describe the controls in place.

3. **CONTROL TECHNIQUES:** Management control techniques are the processes that enable the achievement of the appropriate controls which minimize or prevent the risk and its consequences from occurring. It is a statement of HOW the types of controls are used. For example: Investigations are being prioritized and conducted as required in Order 1600.38B.
4. **RESULTS OF EVENT CYCLE RISK ASSESSMENT:** Determine for each event cycle the level of risk that is applicable if a lack of proper controls exists or if there were to be a relaxation of the controls in place.

*High-risk designations.* A high risk is indicative of a known problem with the system of controls. If that is the case, the responsible official should determine whether the control problem should be considered to be significant such that it warrants a high-risk rating.

*Medium-risk designations.* A known control-related problem can also cause a medium-risk rating to be assigned to an activity. In this case, management is undoubtedly sure that a control breakdown would not result in a loss to the FAA that could be considered significant in nature. However, there is probably a discomfort level such that a more detailed study (MCR/AMCR) of the system of management controls in the reasonably near future to identify needed corrective action is warranted. A medium-risk rating might also be assigned to a new or newly reorganized activity, if only because there are Government resources in a state of flux or uncertainty. In this case, there is the possibility that management controls have not been in existence long enough for management to have a reasonable level of assurance that they will work properly.

*Low-risk designation.* Most low-risk activities are those that are well established in FAA, have never had a control-related problem, have small budgets, and are of low external visibility. Other low-risk activities are those that might be somewhat inherently risky but have always had strong management controls for that very reason and have never had a control breakdown.

#### **STEP 4: Assign Risk Rating.**

1. **ASSESSABLE COMPONENT RISK RATING:** The event cycles within an assessable component may have different levels of risk; however, the assessable component should be assigned the highest risk rating. For example: Contract Administration is an assessable component. The five event cycles are requisition, solicitation, award, administration, and contract close-out. Three of the event cycles were rated "medium," one was rated "high," and one was rated "low." The assessable component, Contract Administration, would be assigned a "high" risk rating.

2. **MCR RECOMMENDED?** In most cases, if you have marked a high overall risk rating for the assessable component, you should indicate "yes." If there is a reason you feel that an MCR need not be conducted in a high-risk area, please provide details under Block 3, Comments (for example, if an MCR or AMCR was conducted or other actions taken). If you have marked a medium-risk rating, use your knowledge of the function and its importance to determine whether to indicate "yes" or "no." If you have marked a low-risk, write "no." Use Block 3, Comments, to provide further clarification of your answer. Management control evaluations or alternative management control evaluations (MCR/AMCR) are required to be conducted on all high-risk ratings within 1 year of identification unless sufficient justification is provided to determine that an evaluation is not required. The justification must be approved by the Office of Management Systems.

3. **COMMENTS:** See 2 above.

4. **IDENTIFY GAO/OIG REPORTS AND MCR's/AMCR's CONSIDERED:** List the GAO and OIG reports, as well as significant appraisals, management evaluations, and other reviews which were considered in this assessment. Consideration should also be given to the adequacy of the corrective actions taken in response to these reports. The assessment should cover all reports since the last risk assessment. The report numbers, names of issuing organizations, dates of issue, and title of the reports considered should be listed.

5. **RA CONDUCTED BY:** This form should be signed and dated by the person who made the assessment and completed the form. Please give title, also.

6. **RA APPROVED BY:** Approving officials for regional assessments are regional program division managers for program activities and regional administrators for administrative functions (regional administrators may delegate this authority). For Washington headquarters, this authority may be delegated to the office and service directors.

Once a risk assessment has been developed, it can be used for subsequent risk assessments. It is reviewed to determine if changes have occurred in the control environment, such that the risk rating assigned is no longer applicable.

FIGURE 1

FAA RISK ASSESSMENT	
PART 1 — RISK	
General	
Organization	Routing Symbol
Civil Aviation Security Division	ACE-700
Assessable Component Number	
4301	
Assessable Component Title	Event Cycle
Aviation Security	Criminal Violations
<b>Mission</b> The Office of Civil Aviation Security plans, develops, oversees, and conducts investigations integral to the agency's programs. This responsibility includes providing an interface with DOT/OIG on investigative matters and for assisting agency employees and officials in properly reporting those matters described above.	
<b>Step 1 — Analyze the General Control Environment</b> <b>Step 2 — Analysis of Inherent Risks</b>	
<b>List Risks.</b>  Failure to coordinate with management to ensure appropriate/timely actions are taken. Inappropriate authority delegated to investigative personnel. Repeated control weaknesses identified by auditors. Failure by management to respond to recommendations by DOT/OIG.	

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FIGURE '1

FAA RISK ASSESSMENT				
PART 2 — SAFEGUARDS				
Step 3 — Identify Safeguards				
Assessable Component Number 4301				
Assessable Component Title Aviation Security			Event Cycle Criminal Violations	
1. Control Objective	2. Type of Control*			
	DOC	OBS	REC	OTH
Ensure that special inquiry and general investigations are carried out in support of the agency mission.		X		X
Ensure that investigations are processed in accordance with Order 1600.38B and other applicable orders.	X		X	
	X		X	
			X	

FIGURE 1

FAA RISK ASSESSMENT	
PART 1 — RISK	
General	
Organization	Routing Symbol
Civil Aviation Security Division	ACE-700
Assessable Component Number	
4301	
Assessable Component Title	Event Cycle
Aviation Security	Special Inquiry
Mission	
The Office of Civil Aviation Security plans, develops, oversees, and conducts investigations integral to the agency's programs. This responsibility includes providing an interface with DOT/OIG on investigative matters and for assisting agency employees and officials in properly reporting those matters described above.	
Step 1 — Analyze the General Control Environment	
Step 2 — Analysis of Inherent Risks	
List Risks:	
Failure to secure investigative files. Issuance of files to persons without proper authority. Incomplete records in investigative files. Improper distribution and filing of Reports of Investigation (ROI's).	

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FIGURE 1

FAA RISK ASSESSMENT				
PART 2 — SAFEGUARDS				
Step 3 — Identify Safeguards				
Assessable Component Number 4301				
Assessable Component Title Aviation Security			Event Cycle Special Inquiry	
1. Control Objective	2. Type of Control*			
	DOC	OBS	REC	OTH
<p>Ensure that special inquiry and general investigations are carried out in support of the agency mission.</p> <p>Ensure that investigations are processed in accordance with Order 1600.38B and other applicable orders.</p>			X	<p>Security awareness training is provided to investigate staff.</p>
		X		<p>Secure sensitive investigative information materials subject to Privacy Act protection are secured after normal working hours.</p>
	X			<p>All cases are opened by a person who is authorized.</p>
	X	X		<p>All appropriate records and documentation are reviewed to ensure all required documentation is included.</p>
		X		<p>Review case control procedures for opening, processing and closing investigations.</p>
<p>*Key: DOC - Documentation OBS - Observation REC - Records OTH - Other</p>				
<p>4. Results of Event Cycle Risk Assessment    <input type="checkbox"/> High    <input checked="" type="checkbox"/> Medium    <input type="checkbox"/> Low    Check appropriate box.</p>				

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Appendix 5

FIGURE 1

FAA RISK ASSESSMENT	
PART 1 — RISK	
General	
Organization Civil Aviation Security Division	Routing Symbol ACE-700
Assessable Component Number 4301	
Assessable Component Title Aviation Security	Event Cycle CFR Violations
<b>Mission</b> The Office of Civil Aviation Security plans, develops, oversees, and conducts investigations integral to the agency's programs. This responsibility includes providing an interface with DOT/OIG on investigative matters and for assisting agency employees and officials in properly reporting those matters described above.	
Step 1 — Analyze the General Control Environment Step 2 — Analysis of Inherent Risks	
List Risks:  Lack of clear cut policies, guidance, or regulations. Failure to provide adequate training investigative personnel. Failure to adhere to the Privacy Act laws. Failure to destroy record if/when required.	

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FIGURE 1

FAA RISK ASSESSMENT				
PART 2 — SAFEGUARDS				
Step 3 — Identify Safeguards				
Assessable Component Number 4301				
Assessable Component Title Aviation Security			Event Cycle CFR Violation	
1. Control Objective	2. Type of Control*			
	DOC	OBS	REC	OTH
Ensure that special inquiry and general investigations are carried out in support of the agency mission.	X	X		
Ensure that investigations are processed in accordance with Order 1600.38B and other applicable orders.			X	
		X		
	X			
Review ROI's to determine if investigations are processed according to Order 1600.32B, i.e., Privacy Act laws, policies, procedures.				
Training in Security procedures is provided to all investigative personnel.				
Review the distribution and retrieval of RIO's to determine proper processing.				
Historical files are reviewed to determine if destruction requirements/criteria are being followed.				

\*Key: DOC - Documentation  
OBS - Observation  
REC - Records  
OTH - Other

4. Results of Event Cycle Risk Assessment    ☒ High    ☐ Medium    ☐ Low    Check appropriate box.

FIGURE 1

FAA RISK ASSESSMENT		
<b>Part 3 — ASSESSABLE COMPONENT SUMMARY</b>		
<b>Step 4 — Assign Risk Rating</b>		
Assessable Component Number 4301		
Assessable Component Title Aviation Security		
1. Assessable Component Risk Rating (Check appropriate box) <input checked="" type="checkbox"/> High <input type="checkbox"/> Medium <input type="checkbox"/> Low		
2. MCR Recommended <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No		
3. Comments:  A management control review (MCR) is not recommended for the following reason: OIG Audit FA-99-4-057, Investigations, dated December 25, 199--. This evaluation was within the past 6 months and material weaknesses identified have been/are being reported in the FY-- annual compliance statement.		
4. Identify OIG/GAO Reports and Evaluations Considered  OIG Audit FA-99-4-057, Investigations, dated December 25, 19-- (Any other applicable audits).		
5. RA Conducted by:		
Name    John Doe	Title    Evaluation Officer	Date    5/10/--
6. RA Approved by:		
Name    John Doe	Title    Director, ACS	Date    5/24/--
Man-Hrs. required to complete risk assessment (.50 = 1/2 hour) <u>1.50</u> hours		



## APPENDIX 6. GUIDANCE FOR PERFORMING MANAGEMENT CONTROL REVIEWS AND ALTERNATIVE MANAGEMENT CONTROL REVIEWS

Paragraph 16e outlines procedures for performing these evaluations. This appendix describes a method for conducting a management control review and an alternative management control review using step-by-step procedures.

### **MANAGEMENT CONTROL REVIEW (MCR).**

A management control review (MCR) has six basic steps:

1. identifying event cycles;
2. selecting the event cycles to be reviewed;
3. documenting event cycles;
4. identifying and assessing potential risks and safeguards/controls;
5. testing the controls for effectiveness; and
6. reporting the results and scheduling corrective actions.

The MCR should be conducted by the organizational unit manager responsible for the assessed unit. An organizational unit manager may request an internal inspection, audit, evaluation, or management review staff to perform or assist in performing the review(s) or to provide technical assistance. Where an organization does not have the staff resources or expertise to perform an adequate MCR, it is appropriate to use contractors to assist in developing organization-specific review methods and perform the MCR's. However, the unit manager should supervise closely the review conducted by other staffs or a contractor to gain the experience and understanding necessary to perform a MCR in subsequent years. It is permissible to conduct MCR's through the formation of an ad hoc group of managers or subject matter experts. Regardless of who conducts the MCR, the organizational unit manager is responsible for its results, for applying the results to his/her organization, and for signing and transmitting the results with the recommendations and a schedule for corrective actions.

The organizational unit manager must sign the forms that are used to verify completion of a MCR. The manager's immediate supervisor or the appropriate managerial oversight official must sign the "concurrence" line. If someone other than the unit manager is performing the MCR, that individual signs as the preparer. The responsibility for the use of the results of the MCR rests with the organizational unit manager.

### **STEP 1: Identifying Event Cycles.**

Many of the activities within FAA have assessable units composed of more than one function. These assessable units may be too large to be reviewed efficiently at one time; therefore, a preliminary step is required to set a manageable scope for the management control evaluation. The functions or subfunctions within the unit should be identified and only those considered most vulnerable should be designated for the subject indepth control evaluation. Once the functions to be reviewed are identified, the next step is to determine the event cycles for each function.

An *event cycle* is a group of related steps or actions within a function or subfunction. These actions are held together by a significant starting point and a significant finishing point. Identifying the event cycles involves breaking the function or subfunction into the steps taken to reach a final action. The reviewer should concentrate on three basic questions which, taken together, constitute the event cycle.

- What action begins the process?
- What is the last action?
- What are the actions that occur between the first and last actions?

A review of written documentation on the activities of a function, operational responsibilities, or the primary activities of the assessable component is useful in identifying event cycles. Source information could be drawn from legislation, regulations, policy statements, organizational charts, budget, functional statements, position descriptions, procedure manuals, and prior risk assessments. Management and staff interviews are also valuable sources of information in determining event cycles. A simple question to determine an event cycle(s) is to ask the function's manager to indicate step by step (Step A to Step Z) what the manager does each day to accomplish his/her mission and then group the steps into identifiable clusters of events. The form provided in Figure 1 demonstrates the identification of the event cycles. Note, the preparer and the unit manager must sign the event cycle form.

***STEP 2: Selecting the Event Cycles to be Reviewed.***

Once the event cycles have been identified, a determination must be made as to which cycles need further review. The results of the risk assessment should be helpful in making this determination. Whether the overall risk rating for the assessable unit was high, medium, or low, a problem or weakness may exist in only a portion of the event cycle(s). It is cost-effective to eliminate from further review event cycle(s) and events within a cycle having low vulnerability regardless of the rating received by the entire assessment. Decisions made at this point in the review should be documented by the organizational unit manager and approved by the appropriate management oversight official.

***STEP 3: Documenting Event Cycles.***

Having identified the event cycle(s) to be reviewed, the next step is to prepare a description of the events or activities included in each event cycle. The documentation should be prepared by someone familiar with the activities of the event cycle, by interviewing the individuals who perform the activity, or by reviewing written records. As a minimum, the documentation of the events within an event cycle should identify all of the events/activities that are part of the event cycle; the process and procedures used to identify the events; forms, files, or other records that are used or kept to record these events or activities; and the regulations, orders, policy statements, and memoranda that establish or maintain the events and event cycle as a necessary part to carry out that program's mission. If the actual conduct of activities differs from the written descriptions of what events should take place, the documentation should provide a narrative detailing any discrepancies. Significant differences between the written process and the actual daily application should be noted.

Once the events are defined, the major steps that are carried out to accomplish each event should be identified. The steps of an event generally are the key actions that take place to produce the intended result. The documentation of the events and steps should be prepared in a written format (Figure 1). Flow charts may be used in lieu of detailed narrative descriptions (Figure 2).

***STEP 4: Identifying potential risks and safeguards/controls.***

This step identifies the risks associated with the event cycle(s) chosen for review and assesses the safeguards that have been put in place to mitigate the risk. Simply stated, this segment of the review answers the questions:

*What can go wrong?*

*What is in place to prevent it from going wrong?*

*Does what is in place provide reasonable assurances?*

In identifying risk, i.e., what can go wrong, the focus of the control review should be on the general control environment and inherent risks of the operation or program. The general control environment refers to the management situation and atmosphere in which the activity is conducted. Inherent risks refer to the vulnerability of the activity to waste, loss, unauthorized use, or misappropriation due to the nature of the activity. The elements to be reviewed are the same as those examined by the risk assessment. Reference to the risk assessment is helpful in conducting this segment of the review. To create the appropriate audit trail, the process and results of the review of the general control environment and inherent risks must be documented.

Below is a list of factors to be considered in an analysis of the general control environment and inherent risks.

*Factors to Consider When Reviewing the General Control Environment*

- *Management Attitude:* Senior management's and the organizational unit manager's recognition of the importance of, and commitment to, a strong system of management control as communicated to employees through actions and words is a measure of management attitude. One method to review this item is to verify that each senior manager and organizational unit manager has had some management control training and, in general, that managers have included management control responsibility in their performance work plan and are rated accordingly.
- *Organizational Structure:* This includes a judgment on how clear is the identification of organizational units which perform the necessary program and administrative functions of the organization to carry out its mission; how concise is the delineation of the organizational reporting relationships; and how clearly drawn are the directives indicating line and staff responsibility.
- *Personnel:* The competence and integrity of the organization's personnel, the adherence to sound personnel practices, e.g., the clarity and application of job elements and performance standards, is reviewed here.
- *Delegation and Communication of Authority and Responsibility:* Appropriate delegation or limitation of authority in a manner that ensures that responsibilities are effectively discharged; the clarity and use of the separation of powers are indicators for reviewing this element.
- *Budgeting and Reporting Practices:* The specificity and communication of organizational goals and objectives in terms of resource application, budgeting to support these goals, and the capability of retrieving information on the extent of the accomplishment are essential in reviewing this item. A manager's knowledge of his/her current budget posture, budget execution and spending patterns, and the program's current availability of funds are vital signs in determining risk, especially in efforts to establish appropriate funds controls.
- *Organizational Checks and Balances:* The establishment of appropriate levels of management, administrative, and financial controls, including internal inspection, auditing, and evaluations signifies the health of the general control environment when reviewing this item.
- *Automated Data Processing (ADP) Consideration:* An awareness of the unique strengths and weaknesses inherent in automated support systems; both physical and content protection, contributes to the determination on the general control environment here.

*Factors to Consider in Identifying Inherent Risks*

- *Purpose and Characteristics of the Program or Function:* Knowledge of programs or function can be obtained by reviewing background material such as the enabling legislation, legislative history, regulations, statements of mission, goals and objectives, operating procedures and policies, prior management control reviews, and budget materials. The following matters should be noted:

- Broad, vague, or cumbersome legislative or regulatory authority, requirements, or regulations;
  - Broad, complex, or vague missions, goals, or objectives; i.e., goals or objectives that cannot be measured in some sort of quantitative or qualitative manner;
  - Existence of third party beneficiaries including cross-organizational impact of activities;
  - Activities involving the payment of entitlements, grants, operating under severe time constraints, or involving the handling of cash receipts; and
  - Activities involving approval of payments, applications, granting of authority, certifications, issuance of licenses or permits, operational inspections, or reimbursables.
- *Budget Level:* Programs or functions involving large amounts of money are more susceptible to waste, loss, unauthorized use, and misappropriation than smaller programs or activities. The level of funding, including personnel resources, can be determined by reviewing the budget and supporting financial materials. For some activities, the total resources involved for a particular event(s) may not be readily available. For example, a separate budget often does not exist for a function such as property management; therefore, the full financial significance of this function, such as the value of the controlled items (i.e., the property), should be estimated by the manager.
  - *Impact Outside the Agency:* Programs and functions often have considerable impact outside an agency; e.g., issuance of registrations, permits or certifications, standard setting, rate making, and licensing. These activities may be susceptible to external pressure that might circumvent management controls. Information concerning potential impact can be obtained from inspection reports, management control reviews, budget documents, program descriptions, reports accompanying legislation, audits, or other management reports, and media and public interest group reports.
  - *Age and Life Expectancy:* Programs or functions that are new (in existence less than 2 years), changing (undergoing substantial modification or reorganization) or phasing out (to be eliminated within 2 years) can be more susceptible to risk than established programs.
  - *Degree of Centralization:* The centralization or decentralization of programs or functions will vary. Centralization or decentralization should be viewed in terms of the span of control by managers to cover programs and activities adequately. The analysis should consider whether the degree of centralization or decentralization is appropriate and document what consideration was given to field operations in this consideration.
  - *Special Concerns:* Consideration should be given to a program or function which has been the focus of special interest by the President, the Congress, the judiciary, OMB, or the FAA Administrator; deadlines set by legislation; media attention; or litigation or other judicial scrutiny.
  - *Prior Reviews:* Reports generated as a result of internal inspections, management control reviews, audits, evaluations, and other management studies should be reviewed. Programs or functions with minimal audit coverage or conversely, the target of significant and repeated inspection or audit findings should be more closely scrutinized.
  - *Management Responsiveness:* Management's responsiveness to recommendations from inspections, control reviews, evaluations, audits, or other management reports should be considered. Quick response to correct weaknesses or implement recommendations generally support a judgment that the program manager is very serious about management controls.

Once the risks associated with the event cycle(s) or primary events have been identified, the focus moves to safeguards; i.e., how to alleviate, minimize or prevent the risk and its consequences from occurring. This involves identifying one or several control techniques which mitigate the risk. Management control techniques are the processes or documents that enable the achievement of the appropriate controls which prevent the risk and its consequences from occurring.

Following is a list of some management control techniques.

*Techniques to Improve Management Control*

- *Policies:* Such as, agency directives define the rules which guide or restrict action. These are statements which signal an agency manager's intentions to act in certain ways under certain circumstances and, as such, they serve as a major management control technique.
- *Procedures:* Such as, appropriately detailing tasks or steps to carry out a program, activity, function, or policy.
- *Records:* Maintaining written evidence which is committed to documents (or computer devices) which contain information about the transactions and responsibilities of an agency, its programs, and major functions are valuable controls. Records, whether manual or automated, include but are not limited to:
  - Documentation of an event or events which provide evidence of the concurrence of the event, the reason for it, and the manner in which it was carried out.
  - Layouts and configurations of forms, files, accounting statements, other records.
  - Documentation which requires the signature of a designated official before the transaction can take place; e.g., signature by contracting officers and certifying official for payments.
- *Organization:* The internal structure of an agency and the responsibilities assigned to each component of the agency that help it carry out its mission. A determination is the optimal manner to achieve the intended program delivery is a key factor for this management control device. Organizational or functional reviews completed by management staffs in response to the congressional reprogramming provisions are helpful here.
- *Personnel:* The performance capabilities of the staff (managers and other employees) of an agency. The methods of performance review and the use of the results of performance reviews by senior management are important. Desk audits completed by personnel staff are also helpful.
- *Physical and Logistical Arrangements:* The placement, organization, and configuration of tangible property. These items are essential in controlling the physical security aspects of a program, activity, or function.
- *Funds Control:* The presence and degree of applicability of fund control directives such as allotments, accounting reports, operating plans, apportionments, and reprogrammings. Reporting and follow up on funds control oversight staffs are essential control techniques. This area is especially critical in the prevention of anti-deficiencies and misappropriation.
- *Delineation of Responsibilities:* The methodology and the appropriate assignment of tasks, responsibilities, and authority to carry out the mission and functions of a program. The periodic review of the assignments and their restructuring, if necessary, and the separation of duties between individuals can be used to minimize risk.

The control techniques used in managing the event cycle must be defined in writing. If the control techniques are not adequately documented, such documentation should be developed and maintained as part of the overall documentation of the programs' or functions' management controls. Figure 3 may be used to document the control techniques.

The following example demonstrates the steps discussed in this section and illustrates the relationship among risk, safeguard, and control techniques.

### EXAMPLE

ASSESSABLE COMPONENT: *Contracting & Procurement*

EVENT CYCLE: *Contract Administration*

PRIMARY EVENT: *Payment*

RISK: *Failure to make payments in accordance with Prompt Payment Act*

CONTROL TECHNIQUES: *Record transaction and automated procedures for timely payment. (The invoice/receiving report data are entered onto a computer system. This system releases the payment voucher 5 days before the due date therefore assuring timely payment.)*

*Assessing the Safeguards for Reasonable Assurance:* The techniques for safeguarding against the identified risk are measured by judging their efficiency, effectiveness, comprehensiveness, and consistency which are defined as follows:

- *Efficiency:* Achieving the desired results within the constraints of cost-benefit and risk.
- *Effectiveness:* Fulfilling the desired management control objective, providing the desired coverage, and being fully operational at appropriate times.
- *Comprehensiveness:* Being organized and arranged in a manner to give reasonable assurance that the desired management control objective is met. Reasonable assurance does not denote total assurance; it means "reasonable." This is a critical factor in the program manager's self assessment.
- *Consistency.* Being uniformly efficient, effective, and comprehensive over extended periods of time.

Management control techniques should not be excessive. Controls which are more costly to maintain than the benefits they produce exceed the standard of reasonable assurance. As such, they may be as problematic as ineffective controls.

It is important to remember that there may be inherent limitations on an agency's efforts to maintain effective management controls. Examples include budget constraints, statutory or regulatory restrictions, staffing limitations, and other program priorities. These constraints should be considered when evaluating the appropriateness of the management control techniques and safeguards. If these constraints have a severe impact, they should be reported as contributing to the weakness. Conversely, correcting the budget constraint, removing the statutory or regulatory restriction, adequate staff, and reprioritizing may be first steps in solving the management control problems.

#### **STEP 5: Testing the controls for effectiveness.**

A test of the management controls is part of the review of the actual control system in place. OMB and GAO have focused on the testing phase of the management control process. Once the safeguards have been identified, they should be evaluated to determine if they are effective. Simply stated, this segment of the review answers the questions:

*Is what is in place adequate to prevent it from going wrong?*

*Is it used and applied correctly?*

*If not, what is needed to correct the situation and schedule the corrections?*

Testing is required to determine if the controls are functioning as designed. The amount of testing necessary should be sufficient so that a reasonable individual conducting or reviewing the test will be satisfied that the test results substantiate that the management controls are operating properly. Testing existing controls requires selecting an adequate sample of transactions, reviewing the documentation, and passing a sufficient number of transactions through the system to ensure that the results conform with regulations and directives, meet the intent of the controls, comply with supporting documentation, and are verifiable. A brief explanation of the method of testing, the extent of the testing, and the results of the testing should be incorporated in the results of the management control review. Figure 4 presents an approach for developing a testing plan and conducting the test. It is only a suggested approach. If you have a method of testing that works better, use it and document it in your report.

**STEP 6: Reporting the results and Scheduling Corrective Actions.**

Managers should analyze the results of the management control review and ask the following questions.

- *In what way is the control environment inadequate for the appropriate functioning of specific controls?*
- *In what areas are controls nonexistent or inadequate?*
- *In what areas are controls not functioning as intended?*
- *In what areas are controls excessive, thereby fostering a lack of economy or creating inefficiencies?*
- *What corrections are needed?*

After identifying the problems and the type of weakness, managers should formulate a list of actions to address these problems. Corrective actions identified should address the specific weakness. For example, the acquisition of a safe may resolve the problem of adequately safeguarding classified materials. Common types of corrective actions include: increased or improved monitoring procedures; reevaluating and adjusting organizational structures and functional responsibilities; reassessing delegations of authority; issuing clarifying instructions; modifying policies, procedures, or documents; reassessing or determining resource allocations; and developing and conducting training programs.

In evaluating which of the corrective actions are appropriate, consideration should be given to the costs and expected benefits that a new or improved control would achieve. If it is difficult to determine the exact costs and benefits of suggested improvements, one should estimate these amounts so that controls are not instituted that cost more than they save.

Once a corrective action is identified, managers should develop clear, accurate statements describing both the weakness and the corrective action and establish a schedule for completing the action. Upon completion of the review, managers shall complete an FAA Form 1000-26.6, Management Control Certification (see appendix 3), and forward it through their A-123 Coordinator to the Office of Management Systems (AMS-1). If the weakness is MATERIAL, a completed FAA Form 1000-26.5, Management Control Review Status Report (see appendix 7), shall be attached to the certification form and the weakness shall be reported in their annual FMFIA statement.

**ALTERNATIVE MANAGEMENT CONTROL REVIEW (AMCR).**

The management control process provides for the use of alternatives to full-scale management control reviews. This is done to maximize the use of other existing management review processes, reduce the workload, and save resources. The use of an AMCR also allows managers to integrate existing review processes into the management control process. Reviews required and conducted under OMB Circular A-76, A-110, A-127, and A-130 should be identified in the MCP and may be used as an AMCR. Major control problems discovered through the reviews conducted to meet the requirements of these circulars are to be reported through the management control process. Similarly, inspection reports, control reviews, audits, evaluations conducted by independent review staffs, and other management reviews or consultant studies conducted at the direction of a program official may also be used as AMCR's.

An AMCR must meet the essential criteria of a management control review and include testing of controls in operation to be an acceptable alternative for the management control review. This may require some additional work by the organizational unit manager to address the management control review criteria which the alternative management review may not have addressed. The results of the AMCR are reported in a manner similar to the management control review. Managers may identify all or any number of the findings and recommendations which pertain to systems of management control. For example, a manager may accept four out of nine findings and recommendations from an audit report as management control weaknesses. Consequently, the manager would report these weaknesses and identify corrective actions with milestones to resolve them.

#### ***DOCUMENTATION.***

Documentation should be prepared and maintained to verify the completion of the evaluation (MCR or AMCR) and the results and conclusions reached. Documentation should include:

- the officials participating in the review;
- the controls examined;
- the extent and type of control tests performed;
- the analyses of the tests conducted;
- a description of any weaknesses found; and
- the actions recommended to correct the weaknesses.

Upon the completion of an AMCR, like an MCR, managers shall complete an FAA Form 1000-26.6, Management Control Certification (see appendix 3), and forward it through their A-123 Coordinator to the Office of Management Systems (AMS-1). If the weakness is MATERIAL, a completed FAA Form 1000-26.5, Management Control Review Status Report (see appendix 7), shall be attached to the certification form and the weakness shall be reported in their annual FMFIA statement.

## FIGURE 1

**SAMPLE  
LIST OF EVENT CYCLES, EVENTS AND STEPS  
WITHIN AN ASSESSABLE UNIT**

Organizational Unit: *Contract Administration Division*

Assessable Component: *Contracts*

Events Cycles		Comments
<i>Cycle A (Contract Administration)</i>		
<b>(Event 1)</b>	Requisition	
<i>Step 1</i>	Justification	
<i>Step 2</i>	Approval	
<b>(Event 2)</b>	Solicitation	
<i>Step 1</i>	Formal Advertising	
<i>Step 2</i>	Written Quotation	
<i>Step 3</i>	Oral Quotation	
<b>(Event 3)</b>	Award	
<i>Step 1</i>	Receive Bids	
<i>Step 2</i>	Review Bids	
<i>Step 3</i>	Sign Contract	
<i>Step 4</i>	Sign Purchase Order	
<b>(Event 4)</b>	Administration	
<i>Step 1</i>	Contractor Performance Review	
<i>Step 2</i>	Authorize Final Payment	
<b>(Event 5)</b>	Contract Close-out	
<i>Step 1</i>	Inactive Files	

Prepared by: \_\_\_\_\_ Date: \_\_\_\_\_

Unit Manager: \_\_\_\_\_ Date: \_\_\_\_\_

FIGURE 2

SAMPLE  
DOCUMENTATION OF EVENT CYCLES

Title of Assessable Component: *Contracts*

Title of Event Cycle: *Contract Administration*

REQUISITION	START
<ul style="list-style-type: none"><li>• Justification</li><li>• Approval</li></ul>	
SOLICITATION	
<ul style="list-style-type: none"><li>• Formal Advertising</li><li>• Written Quotations</li><li>• Telephone Quotations</li></ul>	
AWARD	
<ul style="list-style-type: none"><li>• Receive Bids</li><li>• Review Bids</li><li>• Sign Contract</li><li>• Sign Purchase Order</li></ul>	
ADMINISTRATION	
<ul style="list-style-type: none"><li>• Contract Performance Review</li><li>• Authorize Final Payment</li><li>• Pay Final Invoice/Voucher</li></ul>	
CONTRACT CLOSE-OUT	
<ul style="list-style-type: none"><li>• Inactive Files</li></ul>	FINISH

Prepared by: \_\_\_\_\_ Date: \_\_\_\_\_

Unit Manager: \_\_\_\_\_ Date: \_\_\_\_\_

**FIGURE 3****SUMMARY  
MANAGEMENT CONTROL REVIEW REPORT****ANALYSIS OF EVENT CYCLES, POTENTIAL RISKS, AND CONTROL TECHNIQUES**

Organizational Component

Component Organization: \_\_\_\_\_ Assessable Component: \_\_\_\_\_

Budget Activity (within the Budget): \_\_\_\_\_

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Event Cycle	Potential Risk 1/	Control Techniques 2/	Comments
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Prepared by: _____	Unit Manger: _____	Oversight Official: _____
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Date: _____	Date: _____	Date: _____
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1/ Potential risk rated as high, medium, or low.

2/ Rate Control technique according to N (Nonexistent), W (Weak), S (Strong), and E (Excessive).

## FIGURE 4

### TESTING MANAGEMENT CONTROLS

The following is a five-step approach to testing management controls and provides factors which should be considered in conducting such a test. The steps are:

1. Develop a test plan;
2. Conduct the test;
3. Document the test;
4. Analyze the test results; and
5. Discuss test results.

#### 1: DEVELOP A TEST PLAN.

- *Identify the Controls to be Tested*
  - Test controls which clearly contribute to the achievement of control objectives or managing the risks.
  - Do not test controls which do not meet the control objectives or contribute to managing risks; consider if these controls are really necessary.
  - Consider the cost of testing the controls; if the cost of testing exceeds the value of the control, consider not testing that control.
  - If you eliminate a control from testing, then record the reasons supporting this decision.
- *Select the Method of Testing*
  - Document Analysis: Determine if a control is working by reviewing existing records, completed forms, or other documentation; e.g., directives, policies, regulations, and procedure manuals.
  - Observation: Determine if a control is working by watching the performance of a control through observation of the transactions.
  - Interviews: Determine if a control is working by eliciting information from the personnel who perform the actions and the corresponding control functions.
  - Test Deck Transaction Review: Determine if controls are operating through the use of dummy transactions.
  - Sampling: This can take several accepted forms; e.g., random, stratified random, sequential or interval (every 10th occurrence), or representative.

(There are no simple answers to developing control tests. The nature of the component, the nature of the risks, the type of controls in place, the resources available, and the timing of reviews are all factors influencing the test.)

- *Select the Programs/Functions/Locations to be Reviewed*
  - Determine the organization's programs/functions/locations at which the tests will be conducted. Consider:
    - The number of locations at which the program/function is executed.
    - The organization's programs/functions/locations at which the principal controls are operational.
    - The resources and time available for testing.

**TESTING MANAGEMENT CONTROLS—FIGURE 4 CONTINUED**

- Conduct tests at principal organization levels which execute the program; i.e., Washington (headquarters), region, field office (district office), site (sector).
- Tests are not required at each component/program/function/ location executing the program. Select a sample of these at which the tests will be conducted.

**EXAMPLE:** If the program is executed in 3 Washington offices, 7 regional offices, and 40 field locations, then select 1 Washington office, 2 regional offices, and 6 field locations for testing. Visits to each location selected for testing are not required. The requirement is to test, not to conduct site visits. Rely on managers at regional offices and field and site locations to complete as much of the testing as practicable.

[REMEMBER THE GOAL FOR TESTING IS TO PROVIDE REASONABLE ASSURANCE THE CONTROLS ARE ACTUALLY BEING USED AND ARE EFFECTIVE.]

- *Determine the Amount of Testing Necessary (SAMPLING)*
  - Tests are not needed on 100 percent of the records or 100 percent of the controls of an operation.
  - Observe a selected number of occurrences or transactions of a control or review a portion of existing records (sampling).
  - A sample should be a miniature version of the control system (event cycle) as a whole; it should be representative of the organization program/function/location.
  - Select a sample size sufficient enough to allow you to conclude your findings have not happened by chance.
  - Consider revising the sample size (numbers to be tested) based upon the results of your initial sample. Decrease the sample size if the initial tests of a control indicate that it is operating in every occurrence tested. Increase the sample size if the initial tests of a control indicate that it is not uniformly operated to determine the degree of operation of the control.
- *Collect Data*

Use tools to simplify, standardize, and document data collection. Examples of data collection tools include: observation logs, frequency tabulations, work distribution matrices, checklists, interview guides, and questionnaires.

**2: CONDUCT THE TEST.**

Minimize the time required to test and, as much as possible, rely on personnel at the test locations to assist in testing. The signature of all persons conducting the tests should be on the testing documents. You may use individuals from outside the component to conduct a test or use personnel from similar program areas in other components to conduct the test. You may also compare the test results at one location with test results at another location to check the results.

**3: DOCUMENT THE TEST.**

Document the test performed through working papers. Working papers serve as repositories of the information obtained, identification and documentation of the process followed, tools to perform the review in an orderly fashion, support for discussions with operating personnel, and background and reference data for subsequent reviews.

**4: ANALYZE THE TEST RESULTS.**

The tests of specific control techniques should be analyzed to determine if the degree of compliance with control techniques is adequate. In completing this analysis, it is important to remember that in most instances several control techniques are utilized to meet a control objective or manage a risk. Accordingly, the failure to comply substantially

### ***TESTING MANAGEMENT CONTROLS—FIGURE 4 CONTINUED***

with an individual control techniques does not necessarily result in a failure to meet the control objective or manage a risk, since additional or compensating controls at other points can permit the objective to be met. Questions which should be asked in determining the validity of the results of the test are:

- What is the degree of compliance with the control technique?
- Is the degree of compliance adequate to manage the risk and prevent its consequence?
- If the degree of compliance with the control techniques is not adequate, are there additional or compensating controls which meet the objective? If so, what are the compensating control techniques?
- What are the results of failure to manage the risks?
- Is the problem a failure to comply with existing control techniques or are the techniques inadequate?
- If the techniques are inadequate, what additional techniques are necessary or what revisions to the techniques are necessary?

A short explanation of the weaknesses disclosed is sufficient. The explanation should be cross referenced to the working papers.

#### **5: DISCUSS TEST RESULTS.**

After completing tests at a particular location or component, the test results should be discussed with the managers responsible for operating the control system. The discussions should communicate the results of the testing and any conclusions, seek agreement on the conclusions, and elicit the managers' recommendations on any corrective actions. Such discussions are best held as soon as testing results are complete.

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Appendix 7

APPENDIX 7. MANAGEMENT CONTROL REVIEW STATUS REPORT

MANAGEMENT CONTROL REVIEW STATUS REPORT Office \_\_\_\_\_

U.S. Department of Transportation  
Federal Aviation Administration

No.	Identified Control Weakness	No.	Planned Corrective Action (Include Dates)

(Local Reproduction Authorized)

FAA Form 1000-28.5 (3-90)



## APPENDIX 8. TABLE OF ACRONYMS

<i>Acronym</i>	<i>Meaning</i>
AAA	Office of Accounting
AAD	Associate Administrator for Administration
ADP	Automated Data Processing
AICR	Alternative Internal Control Review
AMCR	Alternative Management Control Review
AMS	Office of Management Systems
AXA	Executive Director for Administration and Resources Management
AXO	Executive Director for Systems Operations
A-123	FAA's Management Control System and/or the OMB Circular A-123
CATS	Corrective Action Tracking System
CG	Comptroller General
DOC	Documentation
DOT	Department of Transportation
FAA	Federal Aviation Administration
FMFIA	Federal Managers' Financial Integrity Act
GAO	General Accounting Office
ICR	Internal Control Review
MCP	Management Control Plan
MCR	Management Control Review
MOA	Memorandum of Agreement
OBS	Observation
OIG	Office of the Inspector General
OMB	Office of Management and Budget
OST	Office of the Secretary of Transportation
OTH	Other
PCMI	President's Council on Management Improvement
RA	Risk Assessment
REC	Records
VA	Vulnerability Assessment



**APPENDIX 9. TABLE OF INTERNAL REPORTS**

Event	Frequency	Reports Due to AMS 1/
<b>I. FMFIA, SECTION 2, REPORTS:</b>		
A. FMFIA Compliance	Annual	September 15
B. MCP Report Update	Semiannual	September 30 March 31
C. CATS Report Update Update Update	Quarterly	September 30 December 31 March 31 June 30
D. High-Risk Area Report Update	Semiannual	September 30 March 31
E. RA's	At least every 3 years	
F. MCE's	On-going; plus, MCE's are to be conducted on high-risk components within 1 year of rating.	
<b>II. FMFIA, SECTION 4, REPORTS:</b>		
A. Accounting System Reviews	Annual	September 15 (Reviews due to AAA)
B. FMFIA, section 4, Report	Annual	September 30 (Report due to AMS from AAA as per MOA of 9/88)

1/ These are general due dates because they are impacted by various reporting factors (e.g., type and quantity of information requested, organizational level where the information is available, etc.) and changes in report requirements and procedures by OMB, OIG, and OST. AMS WILL PROVIDE SPECIFIC REPORT DUE DATES AND PARAMETERS TO ORGANIZATIONS LISTED IN PARAGRAPH 14b BY MEMORANDUM.

